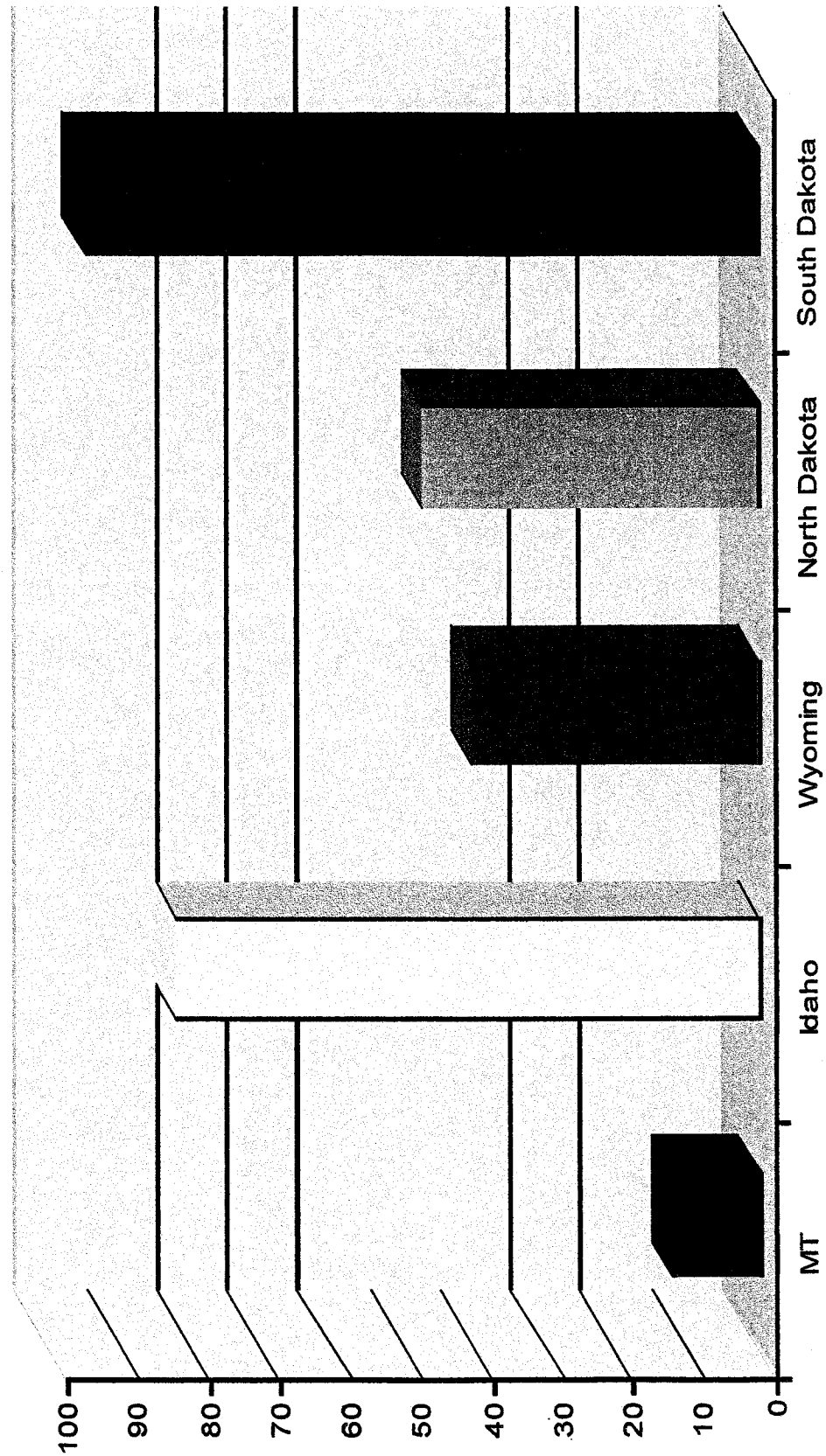


Value Added as a Percentage of Total Agriculture and Food Exports (2004)



Source: US Department of Commerce (2004)

UNLOCKING THE FOOD BUYING POTENTIAL OF MONTANA'S PUBLIC INSTITUTIONS: *Toward a Montana-based Food Economy*

Executive Summary
October 2006

Introduction

A revitalization of rural economies is underway in many states and countries led by increasing demand for locally and regionally produced food products. Farm to Cafeteria programs have played a role in this revival, assisting public institutions to purchase fresh, healthy, locally grown and processed food. A resulting multiplier effect has been felt throughout rural communities.

The Grow Montana project's objectives for the study summarized below are to fill the need in Montana for information on the quantities and types of local food purchased by public institutions and on the opportunities institutions may present as a market for food produced in Montana. In addition, the study's purpose was to assess Montana agriculture's current and potential capacity for food production, processing and distribution needed to serve Montana's public institutional food service markets. Finally, the study report provides recommendations on the next steps that could be taken to enhance local food supply chains in Montana.

Summary of Results

The public institutional markets

Many of the Montana's public food service managers have a genuine and growing interest in purchasing more food produced in Montana.

Public institutions are a relatively small and cost-conscious market, but are an excellent stepping stone for Montana food suppliers seeking to enter larger wholesale and retail markets.

- In general, the state's universities and colleges offer the

greatest short-term opportunities for local growers and food processors seeking to enter Montana's public institutional market. This is because they have more consumer demand for Montana-grown products, a variety of venues (such as catering and cash operations) that allow for more flexible pricing, and experience with incorporating Montana-grown food in their ordering and their menus.

MONTANA'S UNIVERSITIES AND COLLEGES OFFER THE GREATEST SHORT-TERM OPPORTUNITIES FOR LO- CAL GROWERS AND FOOD PROCESSORS SEEKING TO ENTER MONTANA'S PUBLIC INSTITUTIONAL MARKET.

- K-12 schools are the largest component of food expenditures by Montana's public institutions and represent the greatest long-term potential for growth in the use of Montana-produced food. Significant barriers would need to be overcome before the full potential of this sector can be realized.
- Montana's prisons and state-run hospitals are the most price-sensitive of all the institutions, and therefore may be a more difficult market for local producers. There are, however, successful examples of local farm-to-prison and farm-to-hospital programs in other states.

Institutional food buyers believe that the meat, produce, dairy, and bakery categories have the greatest potential for Montana growers and processors.

- Meat: Discussions with public institutions revealed a desire to purchase more Montana-grown beef, pork and poultry products. There is a genuine desire to increase the volume and types of products they could buy, for example, beef strips for fajitas and cooked, breaded chicken and beef strips.
- Produce: Many of the state's public institutions purchase relatively significant quantities of fruit and vegetables. Almost all institutions interviewed expressed a desire to purchase more locally grown produce that has been processed into a convenient, ready-to-use form, such as cleaned and cut. Fresh

fruits and vegetables are exempt from the state procurement law's low-bid requirement, which gives institutions more purchasing flexibility.

- **Bakery:** Many of the bakery products offered by Montana companies are not produced from Montana flour and grains, though they potentially could be. One exception is Wheat Montana, which supplies many public institutions in the state. Bread products used by institutions include items like hamburger buns and bagels.

INSTITUTIONAL FOOD BUYERS BELIEVE THAT THE MEAT, PRODUCE, DAIRY, AND BAKERY CATEGORIES HAVE THE GREATEST POTENTIAL FOR MONTANA GROWERS AND PROCESSORS.

- **Dairy:** While sales of Montana-produced fluid milk are at capacity, Montana specialty cheese, yogurt, ice cream and other processed dairy products hold some promise in institutional and other wholesale and retail markets. Retail outlets at university campuses and campus catering are especially well suited to these and other types of specialty products.

Agriculture's capacity

Many Montana growers and food processors are successfully marketing to the state's public institutions. Their examples offer lessons for further developing Montana's food supply chain.

Montana's food supply chain lacks capacity. Although Montana is very good at producing raw agricultural commodities, generally these commodities are not processed to a form that is needed by institutional or other food buyers. For example, institutional buyers need products like flour, bread or other baked goods rather than wheat; and cooked, processed meat or hamburger patties rather than whole carcasses.

Infrastructure development and capacity-building are necessary to add value to Montana's raw agricultural products and provide customers with the types and volume of food products they wish to buy. The state's food processing infrastructure is considerably less developed than that in neighboring states and many of the types of food purchased by institutions is not currently grown

or processed in Montana. This severely limits the true short-term opportunity that exists in supplying most of the food requirements of public institutions.

Discussion

Montana's public institutions spent approximately \$33 million on food in fiscal year 2004/2005. Montana's Department of Administration, which includes the university system, state-managed prisons and public hospitals, spent approximately \$12.5 million while K-12 schools spent \$19 million on food purchases.

A 10 percent increase by value of Montana-produced food purchased by Montana's institutions would bring almost \$5 million directly into the state's economy. Other researchers estimate that multiplier effects of between 1.8 and 15 would add an additional \$9 million to \$75 million to our local communities. These opportunities are particularly significant for rural areas in Montana which face severe economic development needs.

Institutional food procurement varies significantly from institution to institution (for example K-12 schools versus prisons) as well as within individual institutional sectors (for example, Billings School District contracts with Sodexo, a food service management company, while Bozeman School District contracts with Food Services of America, a prime vendor/distributor, and operates a commercial kitchen that supplies other institutions. The commitment that individual purchasing managers, students/residents, suppliers and others have to Montana-produced food varies. However, most food purchasing managers realize that fresher, better tasting, environmentally friendly, Montana-produced food can improve nutrition and strengthen the region's economy by keeping dollars circulating in the local community.

Both the University of Montana (UM) and Montana State University (MSU) have established programs aimed at sourcing food produced in the state and the region. In 2005, UM-Missoula purchased approximately 13% of its food from regional sources. MSU-Bozeman's more informal local supply initiative purchased approximately 10% of its food from Montana producers.

Most K-12 schools receive their food supplies from a number of sources and programs. The complexity of the K-12 food purchasing structure means that selling food to schools is often confusing for local producers. Programs like the USDA's Food Distribution Commodity program provide schools with access to low-priced food, but at the same time they compete directly with Montana producers that are potentially seeking to market similar products to these institutions. The Montana Office of Public Instruction has an interest in supporting Montana-based food

initiatives and supports recent amendments to the National School Lunch Program that encourage the purchase of locally produced foods.

Montana's prisons and state-run hospitals are the most price-sensitive of all of the institutions, and therefore may represent the most difficult market for local producers. However, if Montana-produced food can be competitively priced there is no reason why it cannot be sold to public prisons, especially Montana State Prison.

SELLING TO PUBLIC INSTITUTIONS PROVIDES AN EXTREMELY USEFUL STEPPING STONE FOR FOOD PRODUCERS SEEKING TO ENTER THE MUCH LARGER FOOD SERVICE AND RETAIL SECTORS.

The potential for increasing the diversity, volume and value of Montana-produced food products sold to public institutions would be enhanced by changes on both the public institution and supplier sides. Many farmers may lack resources to invest in value-added enterprises and are not risk-takers or entrepreneurs. Many public institutions are constrained by cost, infrastructure, time and resource limitations. Food procurement managers were generally unaware of local farmers, growers, or processors that can deliver the high volume of quality products in the form they require, in a timely manner, at a competitive price. Existing relationships need to be built upon, and the buy-in of all the key players in the movement of food from the farm to the fork is essential.

Conclusions and Recommendations

Although public institutions purchase a very small percentage (less than 2%) of the food consumed in Montana, successful programs at the University of Montana and Montana State University illustrate that local suppliers can provide food to public institutions. The local and regional impact of producing food (rather than, or in addition to, raw commodities) cannot be underestimated. It is important that new efforts are made to further develop Montana-based food supply chains by implementing Farm to Cafeteria programs and further developing relationships between public institutions and Montana's

suppliers. To help facilitate the process, the following activities are recommended:

- Target institutions that are genuinely interested.
- Target product sectors that offer the most potential.
- Target producers/processors that have a genuine capacity to supply high quality food at competitive rates and deliver a high level of service.
- Initiate efforts to build Montana's food processing infrastructure and value adding activities.
- Encourage producers to group together to market/distribute.
- Engage all supply chain participants, from farmers to distributors to buyers.
- Learn from other examples of best practice, but recognize the Montana differences.
- Develop new "test programs" and show they work.
- Develop outreach & education programs.

In summary, selling to public institutions provides an extremely useful stepping stone for food producers seeking to enter the much larger food service and retail sectors; however it is not a viable option for every Montana food producer. Producers of niche value-added food products may find more opportunities in other less price-conscious markets where they may be able command a premium price. Others may be able to utilize institutional markets to help drive volumes to levels where economies of scale can be achieved to allow access to additional wholesale or retail markets. They may also be able to use institutional markets as a secondary market for hard-to-market products like low-value beef cuts, which can be turned into hamburger. Supplier and institutional buyer commitment as well as a marketing approach with a focus on institutional buyers' needs will be necessary to continue to enhance public institutions' purchases of food grown or processed in Montana.

The institutional food service market study summarized above was completed by doctors Fraser McLeay and Nicola Barron of KiwiTrade and Business, Inc. on behalf of the National Center for Appropriate Technology's "Grow Montana" project. Funding was provided by the Growth through Agriculture program of the Montana Department of Agriculture.

Grow Montana is a coalition working to create the means for more of Montana's food and farm products to be used closer to home, to retain more of the value that's added to our agricultural products in Montana communities, and to improve all our citizens' access to healthy, nutritious food. It is in this spirit that we offer this report to the citizens and leaders of Montana.



Strengthening Our Food and Agricultural Economy



For more information on work connecting Montana's food producers with institutions, visit www.growmontana.ncat.org, or contact Crissie McMullan at (406) 531-5162. The full report—in print or on CD—can be ordered or downloaded directly from www.growmontana.ncat.org, or by calling Debbie Rask at NCAT (406) 494-4572.